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UNCLAS SECTION 01 OF 03 OTTAWA 001802

SIPDIS

SENSITIVE

DEPARTMENT FOR EB/IFD, EB/OMA, WHA/EPSC, AND WHA/CAN  
STATE PASS FEDERAL RESERVE BANK FOR CHUGH  
STATE PASS SEC FOR JACOBS  
TREASURY FOR WILBUR MONROE AND DAVID NAGOSKI  
PARIS ALSO FOR USOECD

E.O. 12958: N/A

TAGS: [EFIN](#) [EAID](#) [PGOV](#) [CA](#)

SUBJECT: GOC LIKELY TO SURVIVE VOTE ON BUDGET BILLS

REF: A. OTTAWA 1461 (PARALYSIS)

[1](#)B. OTTAWA 1371 (MELTDOWN)

[1](#)C. OTTAWA 640 (BUDGET)

[1](#)1. (U) Summary: Barring a voting glitch that could bring down the government, Canada's basic budget measures are expected to receive final approval by the House of Commons tonight. Members will vote late tonight on Bill C-43, the legislation implementing proposals in the February 23 budget (ref C) and on the C\$187 billion Main Estimates, the nut-and-bolts funding for ongoing programs. Both bills are confidence measures and a defeat would bring down Paul Martin's government. Although there is no real opposition to either bill, the Conservatives do plan to call for votes challenging elements of the legislation and the vote count is close enough that an inadvertent absence could tip the balance.

[1](#)2. (U) The House Finance Committee is still considering Bill C-48, which contains the C\$4.5 billion in new spending that PM Martin promised to secure New Democratic Party (NDP) support in the May 19 confidence vote (refs A and B). On June 9, the House Finance Committee suspended its initial hearing on C-48 after an acrimonious televised two-hour verbal brawl. Hearings resumed June 13 and included an appearance by Finance Minister Ralph Goodale to defend the additional spending. That bill too is expected to clear Parliament before the scheduled recess on June 23. The alliance between the Conservative Party and the Bloc Quebecois in the Finance Committee has ended, and the Liberal-NDP deal is expected to prevail. Bill C-48 would more than double the amount of new money allocated to foreign aid in the next two years.

The "Real" Budget is Proceeding Smoothly

[1](#)3. (U) Implementing legislation for the 2005 budget, Bill C-43, was reported back to the House of Commons by the Finance Committee on June 7 for its third reading and final vote. After approval by the House, the bill will be considered by the Senate (which is expected to approve it) and then receive Royal Assent.

With some changes

[1](#)4. (U) There were substantive changes during deliberation by the Finance Committee, the first of which was a non-change. The Liberal's proposal to remove corporate tax cuts from the legislation, in keeping with its deal with the NDP, was rejected in committee. The failure of the government's amendment means the tax provisions remain as originally tabled in March but the Liberals are expected to reintroduce the measure for a vote by the full house, which may result in the tax cuts being dropped.

[1](#)5. (SBU) The Conservative Party may have been too successful in removing some of the Kyoto implementation provisions. The committee eliminated language that gave the Canadian Environmental Agency a stronger role in assessing and countering harmful emissions, but also eliminated the Greenhouse Gas Technology Investment Fund, instead of removing the intended target: provisions for emissions trading with Russia. This seems to bear out the observation of a budget expert who watched the proceedings and described most of the Conservative Party's proposed amendments as poorly crafted and so confusing that even the Conservative Finance critic appeared unsure about what some of them meant. There may also be an opportunity to correct that mistake in tonight's vote by the full house.

Votes on Two Budget Bills Tonight

[1](#)6. (SBU) The 2005 budget bill, C-43, is scheduled for a vote by the House of Commons tonight, with several votes on specific provisions, including some of the Government

amendments that were defeated in Committee. The main estimates (which cover ongoing expenses such as salaries, fuel, and rent for government buildings) are also being voted on tonight. Passage of the two bills will keep the GOC's budget process on schedule despite the political turmoil and uncertainty of the past months.

17. (SBU) Neither of these bills is controversial. However, the Conservatives have said they plan to challenge some of the funding provisions, and any vote could create a problem should one or two key members of parliament be absent when the vote is called. Comment: We expect all parties to try to avoid a no-confidence vote that would lead to an election. Polls currently favor the Liberal party, and the Conservatives would presumably be the big losers in a hot, summer election sparked by an otherwise popular budget. There was some added drama this afternoon, however, when Independent Pat O'Brien told CBC that he and an unnamed Liberal MP would be voting against the government this evening unless the PM gave them assurances that the same-sex marriage bill would not be tabled this term. This will definitely make the evening's proceedings worth watching. End comment.

The "Pork" is a Little Harder to Digest

18. (SBU) In a desperate (and apparently successful) effort to save his government, Prime Minister Martin embarked on a spending spree in May, capped by a promise to the NDP to drop some corporate tax cuts and boost spending on NDP priorities by C\$4.5 billion (US\$3.6 billion) over two fiscal years. Provisions include additional spending of C\$1.5 billion on post-secondary education, C\$1 billion for foreign aid, C\$1.6 billion for low-income housing and C\$0.9 billion for environment-friendly measures to boost municipal public transport and energy efficiency for low-income homeowners. Bill C-48, which honors that promise, is on a rocky route through the Finance Committee.

19. (SBU) The initial House Finance Committee hearing on C-48, slammed to a halt on June 9 after two hours of acrimonious televised verbal scuffling and a terse statement from one of eight witnesses. An in-camera meeting was convened to look into the conduct of the Committee Clerk and "the discrepancy in how some of the witnesses were contacted." Hearings resumed Monday, June 13 with Finance Minister Ralph Goodale appearing to defend the additional spending.

110. (SBU) One participant told us that the quickly-drafted (two-page long) C-48 has fundamental problems besides fiscal imprudence, saying it is bad legislation that does not contain the usual parliamentary guidance on how funds should be spent. It was "thrown together" and gives Cabinet ministers tremendous discretion. Normally such language would be refined in committee to require more accountability, but given the atmosphere now, that seems unlikely.

111. (SBU) Finance Minister Goodale repeatedly stressed that the spending provisions of C-48 take effect only if there is an adequate fiscal surplus. Neither the Liberals nor the NDP will consider deficit spending. He pointed out that the spending is consistent with the fiscal framework in his original budget and comes to just over 1% of total government spending and 0.2% of GDP. Government spending as share of GDP will remain near 12%. He noted that interest rates have dropped and the stock market has risen since the spending measures were announced, seeming to counter Opposition claims that the government had abandoned fiscal prudence and was leading the country on a path to economic ruin.

112. (SBU) Comment: The additional spending on foreign aid, C\$500 million over the next two years, is a healthy boost to the C\$468 million already budgeted for 2005-07. Although he suggested that the additional spending on foreign aid could help meet Canada's G-7 commitment to debt relief, that proposal was funded in the original budget (C-43). The money is fungible and could provide flexibility for any announcement on aid at Gleneagles or to fund other development priorities. End comment.

Money is not a problem

113. (SBU) This year's budget surplus for FY2004-05 is forecast at C\$9.8 billion, even larger than last year's C\$9 billion. About C\$2.5 billion in new initiatives proposed in the March 2005 budget and some year-end accounting adjustments have yet to be booked. Although the Department of Finance is taking a cautious approach, noting that "it is too early to determine whether the budgetary surplus will be greater than the C\$3 billion projected for the 2004-05 in the 2005 budget," it seems likely that there will be ample funds over the next two years to cover the promises in C-48. The government has said it is confident it can pay for the extra

promises and still maintain its commitment to reduce the debt as a percent of GDP (ref C).

#### Both Bills are Expected to Pass

14. (U) On June 8, the Prime Minister identified C-43 and C-48 as the only priority legislation that must pass before Parliament's summer recess now scheduled for June 23. There is no real opposition to C-43 and its passage will ensure continued smooth functioning of government programs. The bottom line is that the advocates of passing the bills have more momentum than do the opponents.

15. (SBU) The NDP will pull out all the stops to ensure passage of C-48, which contains funding for NDP priorities and confirms the party's status as a player in Parliament. There are signs that Quebec, which benefits from the subsidized housing provisions of C-48, has instructed the BQ to let it through with wording that refers to provincial jurisdiction, thus rupturing the alliance between the Conservative Party and the Bloc Quebecois that brought about the confidence vote last month. (Relations between the BQ and the Conservative finance committee members on June 9 were described as "fractious," their usual state.)

16. (SBU) Comment: The Conservatives are putting up a good fight but they have a weak hand. As Goodale pointed out, all three Opposition leaders wrote to him requesting an increase in foreign aid. The other spending is for popular programs, is consistent with the Liberal's budget priorities, and avoids deficit spending while continuing debt repayment. If there is a surplus, all of the Opposition parties have expressed a preference for "managing" it, that is deciding how to spend it rather than having it automatically dedicated to debt reduction, as is the case now. End Comment.

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